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FM AMEMBASSY CARACAS
TO RUEHC/SECSTATE WASHDC 9795
INFO RUEHAC/AMEMBASSY ASUNCION 0881
RUEHBO/AMEMBASSY BOGOTA 7515
RUEHBR/AMEMBASSY BRASILIA 5989
RUEHBU/AMEMBASSY BUENOS AIRES 1677
RUEHLP/AMEMBASSY LA PAZ SEP LIMA 0865
RUEHMN/AMEMBASSY MONTEVIDEO 0907
RUEHQT/AMEMBASSY QUITO 2679
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RUCPDOG/DEPT OF COMMERCE

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E.O. 12958: N/A

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SUBJECT: BOND OF THE SOUTH III RELAUNCHED

REF: CARACAS 1638

11. This message is Sensitive but Unclassified, please treat accordingly.

12. (U) The Ministry of Peoples Power for Finance (MPPF) announced on September 24 that the price of the USD 1.2 billion Bonos del Sur III (Bond of the South III) would be set at 108 percent of face value. The combo bond consists of USD 600 million in Boden 15s from Argentina with a 7 pct coupon, and USD 600 million in Venezuelan TICC's (Venezuelan Secured Interest and Principal Certificates) with a 7.125 pct coupon. The Boden 15 half will mature October 3, 2015 and can be sold for dollars on secondary markets, while the Venezuelan TICC, although dollar denominated, can only be traded in bolivars at the official rate of Bs 2,150/USD (but serves as a hedge instrument against any future devaluation).

According to a MPPF press release, the proceeds of the issue will be used to recover the money spent one month ago by the BRV to purchase the Boden 15 and to amortize 2007 debt.

13. (U) Orders will be taken until noon Friday, September 28. The minimum purchase available is for USD 3,000, paid in bolivars at the official exchange rate. Auction results will be announced on October 1. This issue, unlike the unsuccessful August issue, is expected to sail through and will likely be oversubscribed given the huge demand for dollars stemming from continued political uncertainty in Venezuela, and a slowing in the delivery of dollars by CADIVI (The Foreign Exchange Control Board) to the private sector. (Note: Although CADIVI dollar authorizations have slowed over the last several months, average daily authorizations remain at record highs given the import boom. Average daily authorizations for the year are USD 159 million compared to USD 99 million for 2006.)

14. (SBU) Comment: Given the relatively small size of the issue, we do not expect it have a significant impact on the parallel exchange rate which is hovering around Bs.4,900/USD. The obvious attraction of these combo bonds is that they allow local investors to move into dollars by selling the Argentine portion of the bond on secondary markets. It is still too early to tell what will be the implicit dollar rate of the Argentine portion of the bond, although analysts are speculating it will be between Bs.3,700 - 3,900/USD. This implicit exchange rate still remains an attractive investment for Venezuelans as the other option would be to go through the bond swap market (which establishes the parallel rate) and pay upwards of Bs. 4,900/USD.

